



瀘州市興瀘水務（集團）股份有限公司

LUZHOU XINGLU WATER (GROUP) CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 2281

2020 INTERIM REPORT

* For identification purposes only

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Chapter I Corporate Information

BOARD OF DIRECTORS:

Executive Directors:

Mr. Zhang Qi (張歧先生) (*Chairman of the Board*)
Mr. Liao Xingyue (廖星樾先生)
Mr. Wang Junhua (王君華先生)

Non-executive Directors:

Mr. Chen Bing (陳兵先生)
Ms. Xu Yan (徐燕女士)
Mr. Xie Xin (謝欣先生)

Independent Non-executive Directors:

Mr. Gu Ming'an (辜明安先生)
Mr. Lin Bing (林兵先生)
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)

STRATEGY COMMITTEE:

Mr. Chen Bing (陳兵先生) (*Chairman*)
Mr. Zhang Qi (張歧先生)
Mr. Lin Bing (林兵先生)

AUDIT COMMITTEE:

Mr. Cheng Hok Kai, Frederick (鄭學啟先生) (*Chairman*)
Mr. Gu Ming'an (辜明安先生)
Mr. Xie Xin (謝欣先生)

NOMINATION AND REMUNERATION COMMITTEE:

Mr. Gu Ming'an (辜明安先生) (*Chairman*)
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)
Mr. Zhang Qi (張歧先生)

SECRETARY TO THE BOARD:

Mr. Chen Yongzhong (陳永忠先生)

JOINT COMPANY SECRETARIES:

Mr. Chen Yongzhong (陳永忠先生)
Ms. Ng Wing Shan (吳詠珊女士)

AUTHORISED REPRESENTATIVES:

Mr. Zhang Qi (張歧先生)
Mr. Chen Yongzhong (陳永忠先生)

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No. 17, Taipingqiao Avenue
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COMPANY WEBSITE:

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Chapter II Definitions

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Company” or “Group” or “us” or “we”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC, converted by Xinglu Water Company Limited (a limited liability company established on 31 July 2002) on 25 December 2015, which includes its predecessor and subsidiaries as required by the context
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Dechang Water”	Dechang Xinglu Water Co., Ltd.* (德昌縣興瀘水務有限公司), a limited company incorporated in the PRC on 2 January 2020, and a subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Fanxing Environmental”	Luzhou Fanxing Environmental Protection and Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a PRC limited liability company established on 18 August 2016, and a subsidiary of the Company
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, and are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

Chapter II Definitions (Continued)

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IPO”	the successful initial public offering of the Company’s H Shares through the main board of the Hong Kong Stock Exchange on 31 March 2017
“Leibo Water”	Leibo Xinglu Water Co., Ltd.* (雷波縣興瀘水務有限公司), a PRC limited company established on 18 February 2020, and a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Luzhou Infrastructure”	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), a PRC limited liability company established on 29 May 2001, one of our Shareholders
“Luzhou Laojiao”	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), a PRC limited liability company established on 21 December 2000, one of our Shareholders
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“PRC” or “China”	the People’s Republic of China, and for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus dated 21 March 2017 in relation to the initial public offering of H Shares
“Qingbaijiang Water”	Chengdu Qingbaijiang Xinglu Water Co., Ltd.* (成都市青白江與瀘水務有限公司), a PRC limited company established on 13 December 2019, and a subsidiary of the Company
“Reporting Period”	the period for the six months starting from 1 January 2020 to 30 June 2020

Chapter II Definitions (Continued)

“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Weiyuan Qingxi Water”	Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.* (興瀘水務(集團)威遠清溪水務有限公司), a PRC limited liability company established on 30 December 2004, and a subsidiary of the Company
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), a PRC limited liability company established on 28 January 2003, our Controlling Shareholder
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a PRC limited liability company established on 11 December 2000, and a subsidiary of the Company
“%”	per cent

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Chapter III Financial Highlights

The Board is pleased to announce the following financial highlights:

1. CONSOLIDATED RESULTS

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue	1,170,554	828,407
Profit before tax	129,154	113,435
Income tax expense	(25,288)	(13,982)
Profit for the period	103,866	99,453
Total comprehensive income for the period attributable to:		
– Owners of the Company	96,516	93,811
– Non-controlling interests	6,991	5,842
Return on shareholders' interests (<i>Note</i>)	4.8%	5.0%
Basic earnings per share (<i>RMB</i>)	0.11	0.11

Note: Return on shareholder's interests is calculated based on profit for the period divided by the average total equity at the beginning and end of the period.

2. CONSOLIDATED ASSETS AND LIABILITIES

	30/06/2020 RMB'000	31/12/2019 RMB'000
Total assets	6,382,484	5,815,603
Total liabilities	(4,174,560)	(3,688,125)
Total equity	2,207,924	2,127,478
Equity attributable to owners of the Company	2,064,345	2,019,412
Non-controlling interests	143,579	108,066

As at the end of the Reporting Period, the Group's unaudited profit attributable to owners of the Company amounted to approximately RMB96.9 million. Basic earnings per share of the Group during the Reporting Period were approximately RMB0.11. The Board did not recommend the payment of interim dividends for the six months ended 30 June 2020.

Chapter IV Management Discussion and Analysis

(I) INDUSTRY OVERVIEW

On 3 February 2020, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the “Guideline on Building a Modern Environmental Governance System” (《關於構建現代環境治理體系的指導意見》) (the “**Guideline**”), which stresses that government agencies shall take the lead and corporate entities, social organisations and the public shall play their parts in the construction of a modern environmental governance system, and that the market system for environmental governance will be improved through developing market regulatory standards, strengthening industrial support, innovating governance models and optimizing charging mechanisms. It is expected that the Guideline will bring opportunities for the healthy development of the water industry. On 17 May 2020, the Central Committee of the Communist Party of China and the State Council jointly issued the Guideline on Advancing the Development of Western Regions in New Era to Promote Coordinated Regional Development (《關於新時代推進西部大開發形成新格局的指導意見》) (the “**WR Guideline**”), proposing to optimize the patterns and forms of urbanization according to local conditions, enhance the functions and roles of national and regional major cities, promote the quality development of city clusters and the rational distribution of cities of different sizes, boost the integration of urban and rural water supply and the construction of key small standardized water supply facilities in sparsely populated areas, and strengthen the standardized development of drinking water sources. As such, the WR Guideline serves as a strong policy support to the water industry in the western regions. In addition, on 3 June 2020, the National Development and Reform Commission and the Ministry of Natural Resources jointly issued the Master Plan for Major Projects of Conservation and Restoration of National Key Ecosystems (2021-2035) (全國重要生態系統保護和修復重大工程總體規劃(2021-2035)) (the “**Master Plan**”), which puts forward the basic principles for ecological governance and conservation in several key areas including the Key Ecological Area of the Yangtze River (including Sichuan-Yunnan ecological shield). The Master Plan will bring development opportunities to water enterprises in the regions.

Thanks to favorable government policies, water businesses have been evolving towards group-based, large-scaled and integrated operations, which will eventually give rise to a new competition landscape in the water industry featuring a handful of competing cross-region integrated water conglomerates with mixed ownerships. During the “**14th Five-Year Plan**” period, the Company shall focus its efforts on seizing the development opportunity arising from the opening up of the water market, mapping out a suitable corporate development strategy, and fully tapping the synergies and comprehensive service capability of various business segments, so as to stay ahead of fierce competition.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2020, the Company will, in consistent adherence to the philosophy of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, pursue reforms and innovation while consolidating its existing business, and strive to provide high-quality services for the vast number of users, develop smart water services, and ensure safe and efficient water supply and up-to-standard wastewater treatment and discharge. In addition, the Company will further enhance its internal governance capacity, keep up with the trend of the times and the developments of macro policies, further dig into the local markets and expand into other regions, promote the consolidation of internal resources of the Group, and centralize the management of several business segments such as water supply and drainage, thereby facilitating its rapid and high standard development.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, principally engaged in tap water supply and wastewater treatment. We adopt project models of build-own-operate (“**BOO**”) and transfer-own-operate (“**TOO**”) in the course of business, where we and local governments enter into concession agreements for a maximum period of 30 years. The Company mainly carries on business in Luzhou City, Weiyuan area in Neijiang City, Leshan City, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 wastewater treatment plants and several township wastewater treatment plants, with a total treatment capacity of approximately 857,500 tons per day. We also operated several wastewater treatment facilities in townships and rural areas.

Tap Water Project

As at the end of the Reporting Period, the Group owned 12 tap water supply plants with a daily supply capacity of approximately 496,500 tons, representing an increase of two tap water plants and approximately 5,000 tons of daily water supply capacity as compared with that as at 31 December 2019. The average utilisation rate of tap water plants stood at 88.9%.

During the Reporting Period, the total sales of water amounted to approximately 65.9 million tons, representing an increase of 7.9% as compared to approximately 61.1 million tons for the six months ended 30 June 2019. The increase was mainly due to the extended water supply areas in cities.

Wastewater Treatment Project

As at the end of the Reporting Period, the Group owned 9 operating wastewater treatment plants and several township wastewater treatment plants, with a daily treatment capacity of approximately 361,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 83.8%.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 56.7 million tons, representing an increase of 8.8% as compared with approximately 52.1 million tons for the six months ended 30 June 2019. Our total volume of wastewater treatment with charges amounted to approximately 67.4 million tons, representing an increase of 4.3% as compared with approximately 64.6 million tons for the six months ended 30 June 2019. The increase was mainly attributable to the commencement of trial operation of the completed part of the Erdaoxi Project Phase III and commencement of operation of township wastewater treatment plants upon completion, which increased our wastewater treatment volume and our total volume of wastewater treatment with charges.

(IV) FINANCIAL REVIEW

1. Analysis of Key Items in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

1.1 Revenue

Revenue of the Group increased by 41.3% from approximately RMB828.4 million for the six months ended 30 June 2019 to approximately RMB1,170.6 million for the Reporting Period. The increased revenue was mainly from infrastructure construction and upgrade services and installation services.

1.1.1 Tap water supply

1.1.1.1 Sales of tap water

Revenue of the Group generated from sales of tap water increased by 5.4% from approximately RMB139.5 million for the six months ended 30 June 2019 to approximately RMB147.1 million for the Reporting Period. The increase was mainly attributable to the increase in tap water sales volume during the Reporting Period. Revenue generated from sales of tap water accounted for 16.8% and 12.6% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.1.2 Installation services

Revenue of the Group generated from installation services increased by 36.3% from approximately RMB125.0 million for the six months ended 30 June 2019 to approximately RMB170.4 million for the Reporting Period. The increase mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation and maintenance services accounted for 15.1% and 14.6% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.1.3 Construction and upgrade tap water supply infrastructure services

Revenue of the Group generated from construction and upgrade tap water supply infrastructure services increased by 46.5% from approximately RMB240.5 million for the six months ended 30 June 2019 to approximately RMB352.3 million for the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction, and water-supply pipeline installation projects increased.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 14.5% from approximately RMB126.3 million for the six months ended 30 June 2019 to approximately RMB144.6 million for the Reporting Period. The increase was primarily due to the increase in the wastewater treatment capacity and the increase in the volume of wastewater treatment with charges as compared with the same period last year. The volume of wastewater treatment with charges was 64.6 million tons and 67.4 million tons for the six months ended 30 June 2019 and 2020, respectively. Revenue generated from wastewater treatment operation accounted for 15.2% and 12.4% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.2.2 Interest income

The Group's interest income increased by 64.5% from approximately RMB23.1 million for the six months ended 30 June 2019 to approximately RMB38.0 million for the Reporting Period. The increase was mainly due to the increased interest income on receivables as a result of the increase in the number of operating facilities of Fanxing Environmental and the commencement of operation of Erdaoxi Project Phase III in the Reporting Period.

1.1.2.3 Construction and upgrade wastewater treatment infrastructure services

Revenue of the Group generated from construction and upgrade wastewater treatment infrastructure services increased by 82.8% from approximately RMB174.0 million for the six months ended 30 June 2019 to approximately RMB318.1 million for the Reporting Period. The increase was primarily due to the construction of Erdaoxi Project Phase III and Xuyong Project Phase II, new facilities of Fanxing Environmental, and the new wastewater plant project of Qingbaijiang Water (a company established in December 2019) during the Reporting Period.

1.2 Cost of sales and services

The Group's cost of sales and services increased by 45.7% from approximately RMB658.4 million for the six months ended 30 June 2019 to approximately RMB959.5 million for the Reporting Period, primarily due to the sharp rise in the cost of infrastructure construction and upgrade services.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

The Group's cost of sales and services associated with sales of tap water increased by 16.4% from approximately RMB106.0 million for the six months ended 30 June 2019 to approximately RMB123.4 million for the Reporting Period. This was primarily due to the increase in tap water sales and the increase in amortization as a result of commencement of operation of water supply pipeline and other infrastructure to meet water supply needs.

1.2.1.2 Installation services

The cost of sales and services associated with installation services increased by 24.2% from approximately RMB55.4 million for the six months ended 30 June 2019 to approximately RMB68.8 million for the Reporting Period. This was primarily due to the increased installation projects during the Reporting Period, leading to the increased service cost.

1.2.1.3 Construction and upgrade tap water supply infrastructure services

The Group's cost of sales and services associated with construction and upgrade tap water supply infrastructure services increased by 43.5% from approximately RMB239.8 million for the six months ended 30 June 2019 to approximately RMB344.2 million for the Reporting Period. This was mainly because Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction, and new projects of water-supply pipeline installation were started during the Reporting Period.

1.2.2 Wastewater treatment

1.2.2.1 Operating services

The Group's cost of sales and services associated with wastewater treatment operating services increased by 26.2% from approximately RMB83.3 million for the six months ended 30 June 2019 to approximately RMB105.1 million for the Reporting Period. The increase was primarily due to an increase in operating costs resulting from the increased treatment volume of wastewater, and an increase in the cost of pharmacy as a result of stricter environmental protection requirements. Cost of sales and services associated with wastewater treatment operating services accounted for 12.7% and 11.0% of our total cost of sales and services for the six months ended 30 June 2019 and 2020, respectively.

1.2.2.2 Construction and upgrade wastewater treatment infrastructure services

The cost of sales and services associated with construction and upgrade wastewater treatment infrastructure services increased by 82.7% from approximately RMB174.0 million for the six months ended 30 June 2019 to approximately RMB317.9 million for the Reporting Period. The increase was primarily due to the construction of Erdaoxi Project Phase III and Xuyong Project Phase II and the new wastewater plant project of Qingbaijiang Water (a company established in December 2019) during the Reporting Period.

1.3 Gross Profit and Gross Profit Margin

As a result of above, our gross profit increased by 24.2% from approximately RMB170.0 million for the six months ended 30 June 2019 to approximately RMB211.1 million for the Reporting Period. The increase was mainly due to the increase in construction operation of installation services and infrastructure construction and upgrade services during the Reporting Period. The gross profit margin decreased from 20.5% for the six months ended 30 June 2019 to 18.0% for the Reporting Period. Such decrease was primarily due to the decrease in gross profit margin from both sale of tap water and wastewater treatment operating services as well as higher percentage of revenue contributed by infrastructure construction and upgrade services with lower gross profit margin for the Reporting Period.

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 29.5 % from approximately RMB33.6 million for the six months ended 30 June 2019 to approximately RMB23.7 million for the Reporting Period. The corresponding gross profit margin decreased from 24.0% for the six months ended 30 June 2019 to 16.1% for the Reporting Period. Such decrease was mainly due to the relatively large increase in amortization as a result of commencement of operation of new water supply pipelines and other infrastructure during the Reporting Period.

1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 46.0% from approximately RMB69.6 million for the six months ended 30 June 2019 to approximately RMB101.6 million for the Reporting Period. The corresponding gross profit margin increased from 55.7% for the six months ended 30 June 2019 to 59.6% for the Reporting Period. Such increase was mainly due to completion of more real estate projects with higher gross profit margin.

1.3.1.3 Construction and upgrade tap water supply infrastructure services

The gross profit of the Group for construction and upgrade tap water supply infrastructure services increased from approximately RMB0.7 million for the six months ended 30 June 2019 to approximately RMB8.1 million for the Reporting Period. Such significant increase was primarily due to higher gross profit from Nanjiao Second Water Plant (Phase II), a new self-constructed project. The corresponding gross profit margins were 0.3% and 2.3% for the six months ended 30 June 2019 and 2020, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating services

The gross profit of the Group for wastewater treatment operating services decreased by 8.1% from approximately RMB43.0 million for the six months ended 30 June 2019 to approximately RMB39.5 million for the Reporting Period. The corresponding gross profit margin decreased from 34.1% for the six months ended 30 June 2019 to 27.3% for the Reporting Period. The decrease was mainly due to the increase in the cost of pharmacy as a result of stricter environmental protection requirements during the Reporting Period.

1.3.2.2 Construction and upgrade wastewater treatment infrastructure services

The gross profit of the Group for construction and upgrade wastewater treatment infrastructure services increased from approximately RMB70,000.0 for the six months ended 30 June 2019 to approximately RMB162,000.0 for the Reporting Period. The increase was mainly due to construction of Erdaoxi Project Phase III and Xuyong Project Phase II by the Group during the Reporting Period.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net decreased from approximately RMB16.3 million for the six months ended 30 June 2019 to approximately RMB12.7 million for the Reporting Period. The decrease was mainly due to the decrease in VAT refunds for wastewater treatment fees for the Reporting Period as well as the decrease in late charges on tap water users as compared with those of the six months ended 30 June 2019.

1.5 Distribution and Selling Expenses

The Group's selling and distribution expenses decreased by 36.8% from approximately RMB8.7 million for the six months ended 30 June 2019 to approximately RMB5.5 million for the Reporting Period. The decrease was primarily because Luzhou Social Security Bureau exempted the basic pension insurance, unemployment insurance and occupational injury insurance (the "Three Insurances") and allowed 50% reduction of medical insurance, following the related policies of the State Council in relation to the Three Insurances.

1.6 Administrative Expenses

The Group's administrative expenses decreased by 3.6% from approximately RMB33.4 million for the six months ended 30 June 2019 to RMB32.2 million for the Reporting Period. The decrease was mainly because Luzhou Social Security Bureau exempted the Three Insurances and allowed 50% reduction of medical insurance, following the related policies of the State Council in relation to the Three Insurances.

1.7 Finance Costs

The Group's finance costs increased by 77.9% from approximately RMB29.8 million for the six months ended 30 June 2019 to approximately RMB53.0 million for the Reporting Period. The increase was primarily due to a rise in interest expense incurred from the matters including the increase in borrowings and the financing lease payment obtained by the Group for the Reporting Period as compared to those of the six months ended 30 June 2019.

1.8 Income Tax Expense

In line with the increase in profit before tax, the income tax expenses increased by 80.7% from approximately RMB14.0 million for the six months ended 30 June 2019 to approximately RMB25.3 million for the Reporting Period. For the six months ended 30 June 2019 and 2020, the effective tax rates of the Group were 12.3% and 19.6%, respectively. Income tax expenses increased significantly as compared with that of the six months ended 30 June 2019. On one hand, the income tax expenses increased due to the increase in profit before tax for the Reporting Period; on the other hand, with the extension of the preferential tax policy for the Development of Western Region to 2030, the tax rate of temporary difference to be reversed has been generally changed from 25% to 15%, resulting in a significant in deferred income tax expenses.

1.9 Profit after Tax and Profit Margin after Tax

As impacted by the significant increase in income tax expenses above, the profit after tax only increased by 4.4% from approximately RMB99.5 million for the six months ended 30 June 2019 to approximately RMB103.9 million for the Reporting Period. Our profit margin after tax decreased from 12.0% for the six months ended 30 June 2019 to 8.9% for the Reporting Period.

2. Analysis of Key Items of Condensed Consolidated Statement of Financial Position

2.1 Property, Plant and Equipment

The property, plant and equipment of the Group was approximately RMB56.7 million and approximately RMB78.8 million as at 31 December 2019 and the end of the Reporting Period, respectively. Such increase was mainly attributable to the increase of non-infrastructures related machines, office equipment and others. In addition, the Group established Leibo Water during the Reporting Period, leading to the increase of the machines, office equipment, fixtures and others.

2.2 Intangible Assets

The Group's intangible assets were approximately RMB2,714.2 million and approximately RMB3,058.6 million as at 31 December 2019 and the end of the Reporting Period, respectively. The increase was mainly due to the completion of the construction and upgrade work of engineering projects.

2.3 Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements were approximately RMB1,169.1 million and approximately RMB1,474.7 million as at 31 December 2019 and the end of the Reporting Period, respectively. The increase was mainly due to the increase in facilities put into operation by Fanxing Environmental, and commencement of operation of part of Erdaoxi Project Phase III during the Reporting Period, leading to the increase in receivables under the service concession arrangements.

2.4 Inventories

The Group's inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to approximately RMB45.4 million and approximately RMB35.5 million as at 31 December 2019 and the end of the Reporting Period, respectively. The decrease was mainly because the Company prepared part of the relevant materials at the end of 2019 for use in 2020 based on the demands for transformation of general water meters under relevant policies, and the inventories decreased accordingly as the transformation projects were carried out during the Reporting Period.

Chapter IV Management Discussion and Analysis (Continued)

The table below sets forth the average turnover days of our inventories for the indicated periods:

	Six months ended 30 June 2020	2019
Average inventory turnover days ⁽¹⁾	8	12

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number of days in the period.

We excluded cost of sales and services from our construction and upgrade services in calculating average inventory turnover days because our inventories are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days decreased from 12 days for the six months ended 30 June 2019 to 8 days for the Reporting Period. Such decrease was mainly due to the speeding up of inventory turnover as a result of the Group's strengthened management over inventory during the Reporting Period.

2.5 Trade Receivables

Trade receivables of the Group were RMB270.0 million and RMB375.7 million as at 31 December 2019 and the end of the Reporting Period, respectively.

The table below sets forth the average turnover days of our trade receivables for the indicated periods:

	Six months ended 30 June 2020	2019
Average trade receivables turnover days ⁽¹⁾	50	35

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number of days in the period.

We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water and installation services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 35 days for the six months ended 30 June 2019 to 50 days for the Reporting Period. Such increase was primarily because the payment of wastewater treatment fees was delayed as impacted by COVID-19 pandemic, while we practically strengthened our management policy on collection of trade receivables.

2.6 Trade Payables

Our trade payables were RMB54.1 million and RMB73.0 million as at 31 December 2019 and the end of the Reporting Period, respectively.

The table below sets forth the average turnover days of our trade payables for the indicated periods:

	Six months ended 30 June	
	2020	2019
Average trade payables turnover days ⁽¹⁾	12	13

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation services and wastewater operating services, while our payables incurred in relation to construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days decreased from 13 days for the six months ended 30 June 2019 to 12 days for the Reporting Period. Such decrease was mainly because the Group strengthened the management of payables and promptly paid trade payables.

2.7 Trade and Construction Payables

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	Six months ended 30 June	
	2020	2019
Average trade payables and construction payables turnover days ⁽¹⁾	135	78

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 78 days for the six months ended 30 June 2019 to 135 days for the Reporting Period. Such increase was mainly due to the increase in construction payables of various tap water supply projects (including Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project) and wastewater treatment projects (including Erdaoxi Project Phase III and Xuyong Project Phase II).

2.8 Deferred Income – Government Grants

Deferred income – government grants of the Group was approximately RMB173.8 million and RMB178.5 million as at 31 December 2019 and the end of Reporting Period, respectively. The increase was mainly due to the receipt of grants supplied by the government for Hushi Town Water Supply Project in Longmatan District as well as Texing Chang'an Water Supply Project in Longmatan District during the Reporting Period.

3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities of the Group will be able to continue as going concerns and optimize the debt and equity balance to maximize the return to shareholders of the Company (the “Shareholders”). The Group’s overall strategy remains unchanged during the Reporting Period. The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

As at the end of the Reporting Period, the bank balances and cash of the Group amounted to approximately RMB890.9 million (31 December 2019: RMB1,095.9 million).

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB3,448.5 million (31 December 2019: RMB2,739.0 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB1,731.5 million (31 December 2019: RMB1,423.6 million), including bank and other borrowings. Approximately 67.1% of our bank and other borrowings bears interest at floating rates.

As at the end of the Reporting Period, the net debts to equity ratio of the Group (being calculated by debts (including long-term and short-term borrowings and bonds payable) less bank balances and cash divided by total equity) was 69.7% (31 December 2019: 48.2%).

The asset-to-debt ratio of the Group (calculated by net debts divided by total assets) increased from approximately 17.6% as at 31 December 2019 to approximately 24.1% as at the end of the Reporting Period. The increase in asset-to-debt ratio was mainly due to the increase in borrowings of the Group during the Reporting Period.

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 963 employees (31 December 2019: 940 employees). For the Reporting Period, employee salaries and benefits expenses amounted to RMB68.4 million (six months ended 30 June 2019: RMB73.3 million). The remunerations and benefits for employees include basic and floating wages, bonuses and staff benefits. The Group endeavours to keep the level of employees’ remuneration in line with industry practices and prevailing market conditions, and such remuneration will be determined based on their performance. The Group also provides external and internal training programs for the employees.

For the Reporting Period, the Group did not incur any significant labour disputes that had material impact on the Group’s normal business operations.

(VI) USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with par value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. As at the end of the Reporting Period, approximately HK\$395.6 million of the proceeds had been used by the Group in the manner as disclosed in the Prospectus and approximately HK\$5.2 million of the proceeds had not yet been used.

Use of proceeds	Amount <i>HK\$ million</i>	Amount used <i>HK\$ million</i>	Amount unused <i>HK\$ million</i>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	34.89	5.19
Total	<u>400.80</u>	<u>395.61</u>	<u>5.19</u>

(VII) MAJOR ACQUISITIONS, DISPOSALS AND INVESTMENTS

On 13 December 2019, the Company, together with 中蓉投建實業有限公司(Zhongrong Investment and Construction Industry Co., Ltd.), jointly funded the establishment of Qingbaijiang Water with a registered capital of RMB34,711,400. The business scope of Qingbaijiang Water includes wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The registered capital has been fully paid on 6 January 2020.

On 2 January 2020, the Company, together with 德昌縣興德投資有限責任公司 (Dechang Xingde Investment Co., Ltd.) and 四川康浩建設工程有限公司(Sichuan Kanghao Construction Engineering Co., Ltd.), jointly funded the establishment of Dechang Water with a registered capital of RMB17,739,000. The business scope of Dechang Water includes wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.

On 18 February 2020, the Company, together with 雷波縣金沙江國有資產經營有限公司 (Leibo Jinshajiang State-owned Assets Management Co., Ltd.), jointly funded the establishment of Leibo Water with a registered capital of RMB60,000,000. The business scope of Leibo Water includes tap water supply and the installation of tap water pipeline and equipment. The Company holds 51% equity interest in Leibo Water which is accounted for as its subsidiary.

Save as disclosed above, during the Reporting Period, the Company has no other arrangements or future plans for major investment, disposal or acquisition of capital assets.

(VIII) PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, there were some bank borrowings of the Group that were secured by the operating concessions for overall district water supply projects in Jiangyang District, the land-use rights owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for certain wastewater treatment fees, certain buildings and tap water plants of Weiyuan Qingxi Water, charging rights for wastewater treatment projects of Fanxing Environmental in township and rural area in Jiangyang District, Luzhou City, and the equity interests in Fanxing Environmental held by the Group.

Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

(IX) FOREIGN EXCHANGE RISKS

During the Reporting Period, the Group carried out business in the PRC and receives revenue and pays its costs/expenses in RMB. The Group has unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognised net foreign exchange gains of RMB24,000 at the end of the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

(X) CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group did not have any material contingent liabilities.

(XI) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to RMB57.29 million (31 December 2019: RMB57.77 million), which represent the Group's equity investments of 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC. Such equity instrument investments are measured at fair value through other comprehensive income.

(XII) EVENTS AFTER THE REPORTING PERIOD

As of the date of this report, the Group did not have any important events after the Reporting Period.

1. INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

2. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

As at the end of the Reporting Period, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

3. PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the PRC laws, the Company is not subject to any requirement on preemptive rights.

4. CHANGE IN DIRECTORS', SUPERVISORS' AND THE CHIEF EXECUTIVE'S INFORMATION

As at the end of the Reporting Period, there were no changes of information of Directors, Supervisors and chief executive of the Company.

5. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

During the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or bonds of the Company to any Directors or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights.

6. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, to the best knowledge of the Board, none of the Directors or Supervisors or their respective associates has any business or interest that competes or may compete with the business of the Group or has or may have any other conflict of interest with the Group.

7. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

During the Reporting Period, none of the Directors, Supervisors or chief executive of the Company had any interests and/or short positions in the Shares, underlying Shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code as set out in Appendix 10 to the Listing Rules to be notified to the Company and Hong Kong Stock Exchange.

8. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Group and balancing the interests of the Shareholders, customers and employees of the Group.

The Company has adopted the code provisions of the Corporate Governance Code, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

According to code provision A.4.2 of the Corporate Governance Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association of the Company, the terms of Directors (including non-executive Director and independent Director) are three years, but extendible by election. The term of the first session of the Board, the Supervisory Committee and the senior executives has expired in December 2018. As (among others) some of the Directors were required to be nominated by the Shareholders, while the nomination procedure has not been completed and some of the Director candidates are still under consideration, the Company was unable to complete the transition before the end of the first session. Before the completion of transition, the existing Directors, the Supervisors and senior executives of the Company will continue to perform their duties.

During the Reporting Period, save for code provision A.4.2 of the Corporate Governance Code, the Company has complied with all code provisions of the Corporate Governance Code.

9. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and the Supervisors. The Company has made specific inquiries to all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the period from the Listing Date to the end of the Reporting Period.

10. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

To the best knowledge of the Company, as at the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section, or owned interest and short positions in more than 5% of any class of issued shares of the Company.

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment ⁽²⁾	Beneficial owner	Domestic Shares	511,654,127(L)	79.35%	59.51%
	Interest in a controlled corporation	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Luzhou Laojiao	Beneficial owner	Domestic Shares	70,406,310(L)	10.92%	8.19%
Luzhou Infrastructure ⁽²⁾	Beneficial owner	Domestic Shares	62,709,563(L)	9.73%	7.29%
Beijing Enterprises Water Group Company Limited ⁽³⁾	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd. ⁽⁴⁾⁽⁷⁾	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%

Chapter V Other Information (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Suntront Intelligence (Hong Kong) Co., Limited ⁽⁵⁾	Beneficial owner	H Shares	16,884,000 (L)	7.86%	1.96%
Suntront Technology Co., Ltd. ⁽⁵⁾	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Fei Zhanbo ⁽⁵⁾	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd.* (瀘州向陽房地產開發有限公司) ⁽⁶⁾⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd. ⁽⁷⁾	Trustee	H Shares	77,787,000 (L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	19,247,000 (L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%

- (1) As at the end of the Reporting Period, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position.
- (2) Xinglu Investment has 79.13% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Luzhou Infrastructure.
- (3) Beijing Enterprises Group (BVI) Company Limited, 100% owned by Beijing Enterprises Group Company Limited, has 41.06% interests in Beijing Enterprises Holdings Limited, which owns 100% interests of Beijing Enterprises Environmental Construction Limited, which in turn has 43.76% interests in Beijing Enterprises Water Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Company Limited.
- (4) Sichuan Development Holding Co., Ltd. has 100% interests in Sichuan Sans Venture Capital Co., Ltd. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd. is deemed to be interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.
- (5) Suntront Technology Co., Ltd. has 100% interests in Suntront Intelligence (Hong Kong) Co., Limited. Fei Zhanbo holds 35.70% interest in Suntront Technology Co., Ltd. Therefore, pursuant to the SFO, Suntront Technology Co., Ltd. and Fei Zhanbo are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Limited.
- (6) Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司) has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd. (瀘州向陽房地產開發有限公司). Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed to be interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd.
- (7) Sichuan Sans Venture Capital Co., Ltd. holds a total of 19,247,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Luzhou Xiangyang Real Estate Development Co., Ltd. holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; and Yang Bin holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd, acting as the trustee for the above-mentioned trusts, is deemed to be interested in the aggregate 77,787,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Company, as at the end of the Reporting Period, no person (other than the Directors, Supervisors and chief executive of the Company) informed the Company that they had interests and/or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section.

11. SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the minimum public float required by the Listing Rules during the Reporting Period.

12. COMPLIANCE WITH NON-COMPETITION AGREEMENT

Xinglu Investment (our Controlling Shareholder) signed a non-competition agreement (the “**Non-competition Agreement**”) in favour of the Company on 10 March 2017. Pursuant to the Non-competition Agreement, Xinglu Investment has irrevocably undertaken to the Company that it would not, and would procure that its subsidiaries would not, directly or indirectly, engage in any relevant business that may be in competition with the Company. Non competition business refers to all business lines of the Group operated currently and to be operated from time to time in the future, which include but not limited to tap water supply and wastewater treatment services. For details, please refer to the section headed “Relationship with our Controlling Shareholder” in the Prospectus.

The independent non-executive Directors have reviewed the information provided by Xinglu Investment regarding compliance with the Non-competition Agreement and determined that Xinglu Investment had fully complied with and was not in breach of the Non-competition Agreement during the Reporting Period.

13. SHARE OPTION SCHEME

During the Reporting Period, there was no share option scheme of the Company.

14. SIGNIFICANT LEGAL PROCEEDINGS

As at the end of the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration, and the Directors are not aware of any legal proceedings or claims of material importance pending or threatened against the Company at the end of the Reporting Period.

15. AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors, namely Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an and a non-executive Director Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick serving as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company's website and the website of the Hong Kong Stock Exchange.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

16. REVIEW OF INTERIM REPORT

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 and the interim report have also been reviewed by the Audit Committee.

17. THE BOARD OF DIRECTORS

As at the end of the Reporting Period, the Board of the Company comprises Mr. Zhang Qi (chairman), Mr. Liao Xingyue and Mr. Wang Junhua, as executive Directors, Mr. Chen Bing, Ms. Xu Yan and Mr. Xie Xin as non-executive Directors, and Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick, as independent non-executive Directors.

18. ACKNOWLEDGEMENT

Finally, I would like to take this opportunity to express my sincere gratitude to the Directors, senior management and employees for their valuable contribution and efforts to the development of the Group, and to the Shareholders, customers, suppliers and corporate partners for their constant support.

By order of the Board
Luzhou Xinglu Water (Group) Co., Ltd.*
Zhang Qi
Chairman of the Board

Luzhou, the PRC
26 August 2020

Report on Review of Condensed Consolidated Financial Statements



德勤

TO THE BOARD OF DIRECTORS OF LUZHOU XINGLU WATER (GROUP) CO., LTD.

瀘州市興瀘水務(集團)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 31 to 68, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six months ended 30 June 2020

	NOTES	Six months ended	
		30/06/2020 RMB'000 (unaudited)	30/06/2019 RMB'000 (unaudited)
Revenue	3		
Tap water supply		147,105	139,548
Wastewater treatment operating services		144,605	126,300
Interest income		38,030	23,068
Installation services		170,416	124,995
Construction and upgrade services of infrastructure		670,398	414,496
		<u>1,170,554</u>	<u>828,407</u>
Total revenue		1,170,554	828,407
Cost of sales and services		<u>(959,472)</u>	<u>(658,394)</u>
Gross profit		211,082	170,013
Other income, expenses, gains and losses, net	5	12,725	16,310
Impairment losses under expected credit loss model, net of reversal	15	(3,888)	(937)
Distribution and selling expenses		(5,501)	(8,725)
Administrative expenses		(32,220)	(33,395)
Finance costs	6	(53,039)	(29,831)
Share of loss of an associate		(5)	—
		<u>(93,928)</u>	<u>(72,688)</u>
Profit before tax	8	129,154	113,435
Income tax expense	7	<u>(25,288)</u>	<u>(13,982)</u>
Profit for the period		<u>103,866</u>	<u>99,453</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the six months ended 30 June 2020

	NOTES	Six months ended	
		30/06/2020 RMB'000 (unaudited)	30/06/2019 RMB'000 (unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income (before tax)		(479)	267
Deferred income tax on fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		120	(67)
Other comprehensive (expense) income for the period, net of income tax		(359)	200
Total comprehensive income for the period		103,507	99,653
Profit for the period attributable to:			
– Owners of the Company		96,875	93,611
– Non-controlling interests		6,991	5,842
		103,866	99,453
Total comprehensive income for the period attributable to:			
– Owners of the Company		96,516	93,811
– Non-controlling interests		6,991	5,842
		103,507	99,653
EARNINGS PER SHARE (RMB)			
– Basic	10	0.11	0.11

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	NOTES	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Non-Current Assets			
Property, plant and equipment	27	78,798	56,663
Right-of-use assets	27	76,734	76,893
Contract assets	14	168,844	181,203
Investment properties	27	13,513	12,173
Intangible assets	11	3,058,581	2,714,174
Goodwill		25,278	25,278
Prepayments and other receivables	12	37,481	14,526
Receivables under service concession arrangements	11	1,448,821	1,146,359
Equity instruments at fair value through other comprehensive income		57,286	57,765
Interest in an associate		1,745	–
Deferred tax assets		24,552	29,925
		4,991,633	4,314,959
Current Assets			
Inventories		35,525	45,351
Receivables under service concession arrangements	11	25,868	22,784
Trade receivables	13	375,662	269,913
Contract assets	14	18,548	18,209
Prepayments and other receivables	12	35,474	38,784
Prepaid income tax		8,916	9,726
Bank balances and cash	16	890,858	1,095,877
		1,390,851	1,500,644
Current Liabilities			
Trade payables	18	72,910	54,134
Other payables	19	924,583	793,888
Lease liabilities		37	37
Contract liabilities	20	218,260	226,379
Tax liabilities		8,135	4,107
Borrowings	17	569,562	491,932
Provisions	21	64,676	3,657
		1,858,163	1,574,134
Net Current Liabilities		(467,312)	(73,490)
Total Assets Less Current Liabilities		4,524,321	4,241,469

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2020

	NOTES	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Capital and Reserves			
Share capital	23	859,710	859,710
Share premium and reserves		1,204,635	1,159,702
Equity attributable to owners of the Company		2,064,345	2,019,412
Non-controlling interests		143,579	108,066
Total Equity		2,207,924	2,127,478
Non-Current Liabilities			
Deferred tax liabilities		16,471	17,776
Lease liabilities		29	46
Borrowings	17	1,161,979	931,641
Deferred income - government grants		178,463	173,849
Bonds payable	22	697,207	696,898
Provisions	21	262,248	293,781
		2,316,397	2,113,991
		4,524,321	4,241,469

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	FVTOCI reserve	Capital reserve	Statutory surplus reserves	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note)				
For the six months ended 30 June 2019 (unaudited)								
At 1 January 2019 (audited)	859,710	2,732	418,386	49,639	549,568	1,880,035	76,876	1,956,911
Profit for the period	-	-	-	-	93,611	93,611	5,842	99,453
Other comprehensive income for the period	-	200	-	-	-	200	-	200
Total comprehensive income for the period	-	200	-	-	93,611	93,811	5,842	99,653
Appropriation for the period	-	-	-	1,715	(1,715)	-	-	-
2018 final dividend declared (Note 9)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Dividends declared to non-controlling interests	-	-	-	-	-	-	(800)	(800)
Capital contribution by non-controlling equity owners of subsidiaries	-	-	-	-	-	-	15,992	15,992
Acquisition of a subsidiary	-	-	-	-	-	-	9,257	9,257
At 30 June 2019 (unaudited)	<u>859,710</u>	<u>2,932</u>	<u>418,386</u>	<u>51,354</u>	<u>589,881</u>	<u>1,922,263</u>	<u>107,167</u>	<u>2,029,430</u>
For the six months ended 30 June 2020 (unaudited)								
At 1 January 2020 (audited)	859,710	3,101	418,386	80,017	658,198	2,019,412	108,066	2,127,478
Profit for the period	-	-	-	-	96,875	96,875	6,991	103,866
Other comprehensive expense for the period	-	(359)	-	-	-	(359)	-	(359)
Total comprehensive (expense) income for the period	-	(359)	-	-	96,875	96,516	6,991	103,507
Appropriation for the period	-	-	-	3,723	(3,723)	-	-	-
2019 final dividend declared (Note 9)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Capital contribution by non-controlling equity owners of subsidiaries	-	-	-	-	-	-	28,522	28,522
At 30 June 2020 (unaudited)	<u>859,710</u>	<u>2,742</u>	<u>418,386</u>	<u>83,740</u>	<u>699,767</u>	<u>2,064,345</u>	<u>143,579</u>	<u>2,207,924</u>

Note: Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each entity established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management) to the statutory surplus reserves (including the general reserve fund and enterprise development fund where appropriate). The transfer to general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended	
	30/06/2020	30/06/2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(175,388)	158,478
INVESTING ACTIVITIES		
Interest received	3,092	3,468
Purchases of property, plant and equipment and construction and upgrade services of infrastructure	(279,099)	(340,737)
Government grants received	7,888	-
Proceeds on disposal of property, plant and equipment	437	-
Acquisition of a subsidiary	-	(104,770)
Investment in an associate	(1,750)	-
Payment of security deposits for other borrowings (Note 17(f))	(750)	-
NET CASH USED IN INVESTING ACTIVITIES	(270,182)	(442,039)
FINANCING ACTIVITIES		
Capital contributions by non-controlling equity owners of subsidiaries	2,163	1,920
Proceeds from new borrowings	501,410	437,508
Repayments of borrowings	(193,442)	(163,626)
Payment of interest expenses	(69,586)	(24,289)
Proceeds from issuing corporate bonds	-	497,550
Repayments of lease liabilities	(18)	(14)
Dividends paid to non-controlling interests	-	(800)
NET CASH FROM FINANCING ACTIVITIES	240,527	748,249
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(205,043)	464,688
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,095,877	547,681
Effect of foreign exchange rate changes	24	8
CASH AND CASH EQUIVALENTS AT 30 JUNE,		
represented by:		
Bank balances and cash	890,858	1,012,377

Notes to the Condensed Consolidated Financial Statements

For the Six Months ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the “IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Group had net current liabilities of RMB467,312,000 as at 30 June 2020. In the opinion of the directors of the Company, the consolidated financial statements of the Group have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations and the current bank facilities available to the Group as at 30 June 2020.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed have stopped the Group’s installation and construction and upgrade activities from February 2020 to March 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the PRC government has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic to the Group. As such, the financial positions and performance of the Group were affected in different aspects, including reduction of retirement benefit scheme contributions in respect of COVID-19-related subsidies as disclosed in Note 8 and rent concessions allowed to certain lessees.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for equity instruments at fair value through other comprehensive income, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2019.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the Six Months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the Six Months ended 30 June 2020

3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended	
	30/06/2020 RMB'000 (unaudited)	30/06/2019 RMB'000 (unaudited)
Type of services		
Tap water supply		
– Tap water	147,105	139,548
– Installation services	170,416	124,995
– Construction and upgrade services of tap water supply infrastructure	352,335	240,457
	<u>669,856</u>	<u>505,000</u>
Wastewater treatment		
– Operating services	144,605	126,300
– Construction and upgrade services of wastewater treatment infrastructure	318,063	174,039
	<u>462,668</u>	<u>300,339</u>
Revenue from contracts with customers	<u>1,132,524</u>	<u>805,339</u>
Wastewater treatment		
– Interest income	38,030	23,068
Revenue	<u>1,170,554</u>	<u>828,407</u>
Timing of revenue recognition		
At a point in time	291,710	265,848
Over time	840,814	539,491
	<u>1,132,524</u>	<u>805,339</u>
Type of customer		
Government	826,270	545,919
Non-government	306,254	259,420
	<u>1,132,524</u>	<u>805,339</u>

The Group's above revenue are derived from the PRC.

The reconciliation of the revenue from contracts with customers with the segment revenue is disclosed in note 4.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the Six Months ended 30 June 2020

4. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker (“**CODM**”), during the period, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group’s reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply, installation, related construction and upgrade services
- Wastewater treatment – provision of wastewater treatment services and related construction and upgrade services

The tap water supply segment includes the Company and its certain subsidiaries mainly providing tap water supply, installation, related construction and upgrade services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “Tap water supply segment”, because, in the opinion of the directors of the Company, they have similar economic characteristics and provide tap water supply, installation, related construction and upgrade services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

In addition, the wastewater treatment segment includes certain subsidiaries of the Company providing wastewater treatment services and related construction and upgrade services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “Wastewater treatment segment”, because, in the opinion of the directors of the Company, they have similar economic characteristics and provide wastewater treatment services and related construction and upgrade services in the PRC under similar production processes to similar classes of customers in the same regulatory environment.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the Six Months ended 30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	147,105	139,548
– Installation services	170,416	124,995
– Construction and upgrade services of tap water supply infrastructure	352,335	240,457
– Inter-segment sales*		
– Tap water	47	80
Wastewater treatment		
– From external customers		
– Operating services	144,605	126,300
– Interest income on receivables under service concession arrangements and contract assets	38,030	23,068
– Construction and upgrade services of wastewater treatment infrastructure	318,063	174,039
Elimination*	(47)	(80)
Revenue	1,170,554	828,407
Segment results		
– Tap water supply**	52,411	47,931
– Wastewater treatment	51,455	51,522
Profit after tax	103,866	99,453

* Inter-segment sales for the six months ended 30 June 2019 and 2020 were conducted at terms mutually agreed among the companies comprising the Group.

** Based on the CODM's consideration, corporate expenses such as auditors' remuneration, directors' emoluments, other legal and professional fees are allocated to tap water supply segment.

The accounting policies of the operating segments are the same as the Group's accounting policies.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the Six Months ended 30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Segment assets		
– Tap water supply	3,970,989	3,849,127
– Wastewater treatment	2,461,531	2,015,976
Elimination	(50,036)	(49,500)
Consolidated total assets	6,382,484	5,815,603
Segment liabilities		
– Tap water supply	2,764,684	2,617,314
– Wastewater treatment	1,459,912	1,120,311
Elimination	(50,036)	(49,500)
Consolidated total liabilities	4,174,560	3,688,125

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

5. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	3,092	3,468
Deferred income in respect of government grants recognised	3,274	3,995
Value-added-tax ("VAT") refunds (Note (a))	3,107	4,212
Commission income on garbage fees collected for governmental bureau	2,204	1,800
Late charges on tap water users	519	1,802
Rental income less outgoings (Note (b))	229	548
Gains (losses) on disposal of property, plant and equipment, net	321	(11)
Donations	(134)	–
Foreign exchange gains (losses), net	24	(207)
Others (Note (c))	89	703
	<u>12,725</u>	<u>16,310</u>

Notes:

- a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the directors of the Company, the Group achieved both the technology requirements and pollutant emission standards.
- b. Rental income are all generated from operating leases, and related lease payments are fixed.
- c. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, other equipment and materials etc.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

6. FINANCE COSTS

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	32,596	20,303
Interest on other borrowings	10,000	5,800
Unwinding of the discount (Note 21)	6,826	5,099
Interest on lease liabilities	1	1
Interest on bonds payable (Note 22)	20,285	5,062
	<u>69,708</u>	<u>36,265</u>
Less: Amount capitalised in qualified assets	(16,669)	(6,434)
	<u>53,039</u>	<u>29,831</u>

Borrowing costs capitalised during the six months ended 30 June 2020 arose on the specific and general borrowing pool and the latter are calculated by applying a capitalisation rate of 5.18% (six months ended 30 June 2019: (unaudited)5.0%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax	21,100	19,538
Deferred tax – current period	(3,159)	(5,556)
Deferred tax – attributable to change in tax rate (Note (a))	7,347	–
	<u>25,288</u>	<u>13,982</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

7. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT law, the tax rate of the subsidiaries is 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: (unaudited)25%), except for the following group entities:

Name of company	Applicable EIT rate	
	Six months ended 30 June 2020	Six months ended 30 June 2019
The Company (Note (a))	15%	15%
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) (Note (a))	15%	15%
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) (Note (a))	15%	15%
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) (Note (a))	15%	15%
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) (Note (a))	15%	15%
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) (Note (a))	15%	15%
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) (“Sitong Engineering”)	20% Note (c)	15% Note (a)
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) (“Xinglu Wastewater Treatment”) (Notes (a) and (b))	7.5% or 15%	7.5% or 15%
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) (“Sitong Design”)	20% Note (c)	15% Note (a)
瀘州市興合水環境治理有限公司 (Luzhou XingheWater Governance Co., Ltd.) (Note (a))	15%	15%

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

7. INCOME TAX EXPENSE (CONTINUED)

Name of company	Applicable EIT rate	
	Six months ended 30 June 2020	Six months ended 30 June 2019
興瀘水務(集團)威遠清溪水務有限公司 (XingheWater Weiyuan Qingxi Water Co., Ltd.) (Note (a))	15%	15%
威遠城市供排水安裝工程有限公司 (Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.) (Note (a))	15%	15%
樂山市興瀘水務興嘉環保科技有限公司 (Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.) (“Leshan Xingjia”) (Note (c))	20%	20%
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“Fanxing Environmental”) (Note (b))	Nil	Nil
敘永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd.) (“Yongxing Water”) (Note (c))	20%	N/A
成都市青白江興瀘水務有限公司 (Chengdu Qingbaijiang Xinglu Water Co., Ltd.) (“Qingbaijiang Water”) (Notes (c) and (d))	20%	N/A
德昌縣興瀘水務有限公司 (Dechang Xinglu Water Co., Ltd.) (“Dechang Water”) (Notes (c) and (d))	20%	N/A
雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd.) (“Leibo Water”) (Notes (c) and (d))	20%	N/A

Notes:

- a. According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. The aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business is expected to account for more than 70% of their total revenue for the year ending 31 December 2020. Therefore these entities enjoy the preferential EIT rate of 15% for the period.

In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 30 June 2020.

7. INCOME TAX EXPENSE (CONTINUED)

Notes: – continued

- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant (“Chengdong”) and Chengnan Wastewater Treatment Plant (“Chengnan”), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rate of Chengdong and Chengnan is 7.5% for the six months ended 30 June 2019 and 2020.

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, is also entitled to be exempted from EIT in respect of the income generated by it for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. Fanxing Environmental commenced production and operation in February 2019 and the EIT rate is nil for the six months ended 30 June 2019 and 2020.

- c. According to the Notice on Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Notice of the State Administration of Taxation No. 13 [2019]), Sitong Engineering, Sitong Design, Leshan Xingjia, Yongxing Water, Qingbaijiang Water, Dechang Water and Leibo Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.
- d. Qingbaijiang Water, Dechang Water and Leibo Water were established on 13 December 2019, 2 January 2020 and 18 February 2020, respectively.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

8. PROFIT BEFORE TAX

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	4,388	3,487
Depreciation of investment properties	241	224
Amortisation of intangible assets	53,192	43,387
Depreciation of right-of-use assets	916	909
Total depreciation and amortisation	58,737	48,007
Staff costs (including the directors' and supervisors' remuneration):		
– Salaries, wages and welfare	64,386	61,398
– Retirement benefit scheme contributions	3,980	11,921
Total staff costs	68,366	73,319
and after crediting:		
Gross rental income from investment properties	486	704
Less: Direct operating expenses incurred for investment properties that generated rental income	(257)	(156)
	229	548

During the current interim period, the Group is entitled a reduction of retirement benefit scheme contributions amounting to approximately RMB9 million in respect of COVID-19-related subsidies, which are related to Employment Support Scheme provided by the PRC local government.

9. DIVIDEND

During the reporting period, a final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2019 (six months ended 30 June 2019: (unaudited) RMB51,583,000 or RMB0.06 per share) was declared to the shareholders of the Company.

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: (unaudited) Nil).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended	
	30/06/2020	30/06/2019
	(unaudited)	(unaudited)
Profit for the period attributable to the owners of the Company (RMB'000)	<u>96,875</u>	<u>93,611</u>
Weighted average number of ordinary shares issued ('000)	<u>859,710</u>	<u>859,710</u>

No diluted earnings per share is presented for the six months ended 30 June 2020 and 2019 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

11. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and right-of-use assets of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for a maximum period of 30 years (the “**Service Concession Period**”), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements or the infrastructure is transferred to the grantors at nil consideration at the end of the relevant service concession periods.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements (unless such infrastructure is pledged against borrowings for the operation of the Group within the Service Concession Period as allowed under certain service concession agreements), and arrangements for arbitrating disputes.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

11. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a contract asset (during construction phase) or a financial asset (receivable under a service concession arrangement) (upon completion of construction and commencement of operation) or a combination of such, as appropriate.

During the current period, the Group had the following new service concession arrangements:

- (a) Pursuant to the concession agreement with Qingbaijiang District Economic Science, Technology and Information Technology Bureau of Chengdu Municipality (成都市青白江區經濟科技和資訊化局), the Group has concession right to provide wastewater treatment services in industrial zone of Qingbaijiang District at an initial wastewater treatment tariff rate set out therein. The tenure of the service concession period is for a maximum of 25 years (excluding the construction period of the relevant infrastructure). Apart from the wastewater treatment service fee, the Group is entitled to a guaranteed fixed monthly payment which is calculated based on the Group's investment in the relevant infrastructure plus a margin as mutually agreed between the Group and the relevant governmental bureau.
- (b) Pursuant to the concession agreement with Management Committee of Industrial Concentration Zone of Dechang County (德昌縣工業集中區管理委員會), the Group has concession right to provide wastewater treatment services in industrial concentration zone of Dechang County at an initial wastewater treatment tariff rate set out therein. The tenure of the service concession period is for a maximum of 30 years (including the construction period of the relevant infrastructure). Apart from the wastewater treatment service fee, the Group is entitled to a guaranteed fixed monthly payment which is calculated based on the Group's investment in the relevant infrastructure plus a margin as mutually agreed between the Group and the relevant governmental bureau.

During the service concession period of the aforesaid service concession arrangements, the Group has responsibilities including, amongst others, provision of uninterrupted tap water supply and wastewater treatment service, maintaining serviceability of the tap water supply and wastewater treatment infrastructure and quality monitoring and inspection procedures of tap water, wastewater and discharged water, and remedial protocols, etc.

In the event of the Group's default, the operation of the relevant infrastructure shall be taken over. The events of default include, amongst others, transfer or leasing out the concession right without permission, assets pledge or disposal without permission, material adverse impact on public interest or safety due to termination or suspension of operation without permission, significant quality or safety accidents due to mismanagement, liquidation or insolvency, etc.

Upon expiry of the service concession period, the Group has no priority to extend the concession right and should transfer the related infrastructures to the relevant governmental bureau at nil consideration.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

11. SERVICE CONCESSION ARRANGEMENTS – CONTINUED

The Group's intangible assets representing operating concession right in respect of tap water supply and wastewater treatment service are as follows:

	<i>RMB'000</i>
Cost	
At 31 December 2019 (audited)	3,062,710
Additions	397,599
At 30 June 2020 (unaudited)	<u>3,460,309</u>
Accumulated amortisation	
At 31 December 2019 (audited)	(348,536)
Amortisation for the period	<u>(53,192)</u>
At 30 June 2020 (unaudited)	<u>(401,728)</u>
Carrying amounts	
At 30 June 2020 (unaudited)	<u><u>3,058,581</u></u>
At 31 December 2019 (audited)	<u><u>2,714,174</u></u>

The intangible assets of the Group are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

11. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

As at 30 June 2020, intangible assets recognised under service concession arrangements of RMB1,212 million (31 December 2019: (audited) RMB915 million) have yet available for use and have been allocated to individual cash generating units (“CGUs”) in tap water supply and wastewater treatment segments. The directors of the Company engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the relevant CGUs as at 31 December 2019 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the directors of the Company covering a five-year period and pre-tax discount rates ranging from 11.4% to 15.9% per annum. No growth in cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group’s water supply plants and wastewater treatment plants at the current tariff; CGUs’ past performance and the management’s expectation for the forecast growth in usage of tap water and wastewater treatment services and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the directors of the Company, these assumptions are realistic and achievable. Based on the above value in use calculations and considering that the assumptions used in the calculation are still applicable as at 30 June 2020, the directors of the Company determine that there is no impairment of any of its CGUs containing the Group’s intangible assets as at 30 June 2020. The directors of the Company also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

The Group’s receivables under service concession arrangements arose from the minimum wastewater treatment volume and fixed monthly payment guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements and are as follows:

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Non-current portion	1,448,821	1,146,359
Current portion	25,868	22,784
	1,474,689	1,169,143
Expected collection schedule is analysed as follows:		
Within one year	25,868	22,784
More than one year, but not exceeding two years	29,356	24,519
More than two years, but not exceeding three years	32,500	25,802
More than three years, but not exceeding four years	35,275	27,158
More than four years, but not exceeding five years	37,348	28,619
Over five years	1,314,342	1,040,261
	1,474,689	1,169,143

The effective rates for the above financial assets fall within the range from 3.51% to 6.33% (31 December 2019: (audited) 3.51% to 6.33%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

12. PREPAYMENTS AND OTHER RECEIVABLES

	30/06/2020	31/12/2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Prepayments for inventories	21,473	10,908
Prepayments for land use rights	10,000	4,000
Other receivables (<i>Note</i>)	18,284	18,918
Prepaid VAT	25,281	16,428
Refundable security deposits for sale and leaseback arrangements (<i>note 17 (f)</i>)	6,200	5,450
Less: Allowance for credit losses	(3,283)	(2,394)
	72,955	53,310
Less: Amount classified as non-current assets	(37,481)	(14,526)
Current assets	35,474	38,784

Other receivables mainly include various receivables due from local governmental bureau in respect of certain construction projects. The remaining other receivables primarily represent various refundable deposits.

Details of impairment assessment of other receivables are set out in note 15.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

13. TRADE RECEIVABLES

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Trade receivables	379,759	271,608
Less: Allowance for credit losses	(4,097)	(1,695)
	375,662	269,913

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment and installation services customers.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for credit losses:

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Within 3 months	186,338	165,956
Between 3 months and 6 months	54,577	36,419
Between 6 months and 12 months	88,094	31,833
Over 1 year	46,653	35,705
	375,662	269,913

As at 30 June 2020, included in the Group's trade receivables are wastewater treatment fees receivables due from local governmental bureau with gross carrying amounts aggregating to RMB133,613,000 (31 December 2019: (audited) RMB67,360,000) which has been past due over 90 days and is not considered as default because the local governmental bureau require longer time to complete the governmental procedures for settlement of the wastewater treatment fees as a result of the increasing wastewater treatment volume. The Group does not hold any collateral over these balances.

Details of the impairment assessment are set out in note 15.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

14. CONTRACT ASSETS

The contract assets of the Group relate to their right to consideration for provision of construction and upgrade services on wastewater treatment infrastructure and installation services completed but yet invoiced by the Group because their right to payments are still not yet unconditional according to the relevant contracts at the end of each reporting period. The contract assets, net of credit losses, of the Group at the end of reporting period are as follows:

	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Provision of construction and upgrade services on wastewater treatment infrastructure <i>(Note (a))</i>	168,844	181,203
Provision of installation services <i>(Note (b))</i>	21,068	20,132
Less: Allowance for credit losses		
– provision of installation services	<u>(2,520)</u>	<u>(1,923)</u>
	187,392	199,412
Less: Portion classified as non-current	<u>(168,844)</u>	<u>(181,203)</u>
Current portion	<u><u>18,548</u></u>	<u><u>18,209</u></u>

Notes:

- (a) These contract assets arose from the Group's construction and upgrade services on wastewater treatment infrastructure that the Group is provided with monthly payment by the relevant grantors for the service concession period with significant financing component. These contract assets will be transferred to receivables under service concession arrangements upon the completion of the construction of the relevant infrastructure. As the contract assets are not expected to be settled within one year from the end of the reporting period, the whole balance is classified as non-current.
- (b) These contract assets arose from the Group's provision of installation services and are transferred to trade receivables when such right become unconditional.

The decrease in the contract assets of the Group was mainly due to the completion of the construction of certain relevant wastewater treatment infrastructure.

Details of the impairment assessment are set out in Note 15.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

15. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment loss recognised (reversed) in respect of		
Trade receivables		
– installation services	2,402	(129)
Contract assets		
– installation services	597	(91)
Other receivables	889	1,157
	<u>3,888</u>	<u>937</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

16. BANK BALANCES AND CASH

As at 30 June 2020, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.89% (31 December 2019: (audited) from 0.01% to 1.38%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

17. BORROWINGS

	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Unsecured bank borrowings without corporate guarantee (Note (a))	220,000	220,000
Unsecured bank borrowings with corporate guarantee (Note (b))	686,935	370,512
Secured bank borrowings (Note (c))	387,830	400,200
Unsecured other borrowings (Note (d))	180,598	182,698
Unsecured other borrowing with corporate guarantee (Note (e))	66,000	66,000
Secured other borrowings (Note (f))	190,178	184,163
	1,731,541	1,423,573
The carrying amounts repayable:		
Within one year or on demand	569,562	491,932
Within a period of more than one year but not exceeding two years	194,028	176,576
Within a period of more than two years but not more than five years	525,085	454,303
Within a period of more than five years	442,866	300,762
	1,731,541	1,423,573
Less: Amount due within one year shown under current liabilities	(569,562)	(491,932)
Amount shown under non-current liabilities	1,161,979	931,641

Notes:

- (a) As at 31 December 2019, the unsecured bank borrowings of RMB220,000,000 bear interest at floating rates ranging from 4.73% to 4.96% per annum. These bank borrowings are repayable from January 2020 to December 2020.

As at 30 June 2020, the unsecured bank borrowings include a bank borrowing of RMB30,000,000 bearing interest at a fixed rate of 4.78% per annum, and the remaining bank borrowings of RMB190,000,000 bear interest at floating rates ranging from 4.35% to 4.96% per annum. These bank borrowings are repayable from July 2020 to June 2021.

- (b) As at 31 December 2019, the unsecured bank borrowings include bank borrowings of RMB47,000,000 bearing interest at a fixed rate of 7.50% per annum, and the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.57% to 5.78% per annum. These unsecured bank borrowings are repayable from March 2020 to December 2035 and their repayments are guaranteed by the group companies.

As at 30 June 2020, the unsecured bank borrowings include bank borrowings of RMB45,600,000 bearing interest at a fixed rate of 7.50% per annum, and the remaining unsecured bank borrowings bear interest at floating rates ranging from 3.10% to 5.78% per annum. These unsecured bank borrowings are repayable from September 2020 to December 2035 and their repayments are guaranteed by the group companies.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

17. BORROWINGS

Notes: (Continued)

(c) (i) As at 31 December 2019, the bank borrowings are comprised of the following:

- Bank borrowings of RMB110,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from May 2020 to May 2024. The repayment of the bank borrowings are guaranteed by the group companies.
- A bank borrowing of RMB115,700,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 5.88% per annum and is repayable by instalments from June 2020 to April 2027.
- Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.
- Bank borrowings of RMB15,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before December 2020.
- Bank borrowings of RMB43,500,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 5.64% per annum and are repayable by instalments from June 2020 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
- Bank borrowings of RMB45,000,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from June 2020 to January 2026. The repayment of the bank borrowings are guaranteed by Xinglu Investment.
- Bank borrowings of RMB65,000,000 are secured by the Group's equity in Fanxing Environmental, bear interest at a floating rate of 5.28% per annum and are repayable by instalments from June 2020 to August 2026. The repayment of the bank borrowings are guaranteed by the group companies.

(ii) As at 30 June 2020, the bank borrowings are comprised of the following:

- Bank borrowings of RMB100,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from November 2020 to May 2024. The repayment of the bank borrowings are guaranteed by the group companies.
- Bank borrowings of RMB138,080,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a floating rate of 5.88% per annum and are repayable by instalments from December 2020 to April 2027.
- Bank borrowings of RMB15,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before December 2020.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

17. BORROWINGS (CONTINUED)

Notes: (continued)

- (c) (ii) As at 30 June 2020, the bank borrowings are comprised of the following: -continued
- Bank borrowings of RMB31,750,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 5.64% per annum and are repayable by instalments from December 2020 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
 - Bank borrowings of RMB43,000,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from December 2020 to January 2026. The repayment of the bank borrowings are guaranteed by Xinglu Investment.
 - Bank borrowings of RMB60,000,000 are secured by the Group's equity in Fanxing Environmental, bear interest at a floating rate of 5.28% per annum and are repayable by instalments from December 2020 to August 2026. The repayment of the bank borrowings are guaranteed by the group companies.
- (d) (i) As at 31 December 2019, the other borrowings are comprised of the following:
- Other borrowings of RMB52,698,000 from independent third parties bear interest at fixed rates ranging from nil to 8.02% per annum and are repayable on demand.
 - A loan of RMB130,000,000 is from local governmental bureau, bears interest at a fixed rate of 3.41% per annum and is repayable on March 2026.
- (ii) As at 30 June 2020, the other borrowings are comprised of the following:
- Other borrowings of RMB50,598,000 from independent third parties bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.
 - A loan of RMB130,000,000 is from local government bureau, bears interest at a fixed rate of 3.41% per annum and is repayable on March 2026.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

17. BORROWINGS (CONTINUED)

Notes: (continued)

- (e) The other borrowing represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., bears interest at a fixed rate of 1.20% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.
- (f) On 28 January 2019, the Group entered into a sale and leaseback arrangement of certain tap water supply infrastructure, with a carrying amount of RMB248,862,000, with a financial institution for a consideration of RMB200,000,000. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") as a sale, accordingly, the transfer proceeds of RMB193,400,000 (net of issue costs of RMB6,600,000) is accounted for as borrowing within the scope of IFRS 9. As at 30 June 2020 and 31 December 2019, the borrowing is secured by certain tap water supply infrastructure and a refundable security deposit of RMB5,000,000 of the Group, bears interest at a fixed nominal rate of 4.28% per annum and is repayable by instalments up to April 2024.

On 23 December 2019, the Group entered into another sale and leaseback arrangement of certain wastewater treatment infrastructure, with a carrying amount of RMB114,390,200, with a financial institution for a consideration of RMB100 million. The Group withdrew RMB30,000,000 on 24 December 2019 and RMB50,000,000 on 18 May 2020. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale accordingly, the transfer proceeds of RMB77,680,000 (net of issue costs of RMB2,320,000) is accounted for as borrowing within the scope of IFRS 9. As at 30 June 2020 and 31 December 2019, the borrowings are secured by certain wastewater treatment infrastructure and a refundable security deposit of RMB1,200,000 (2019: RMB450,000) of the Group, bear interest at a fixed nominal rate of 4.28% per annum and are repayable by instalments up to May 2025.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

18. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Within 6 months	58,003	42,204
Between 6 months and 12 months	5,369	4,463
Over 1 year	9,538	7,467
	72,910	54,134

The credit period on purchases are generally within 6 months.

19. OTHER PAYABLES

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Dividends payable:		
– Xinglu Investment (the immediate holding company of the Company)	30,699	–
– Luzhou Laojiao Group Co., Ltd.	4,224	–
– Luzhou City Infrastructure Investment Co., Ltd.	3,763	–
– H-share shareholders	12,897	–
Wages and welfare payable	22,356	38,236
Other taxes payable	8,809	9,930
Construction payables	693,695	619,134
Payables for purchases of wastewater treatment plants	35,375	6,212
Payables to governmental bureau	61,519	65,238
Interest payable on borrowings	7,967	5,006
Interest payable on bonds	12,492	22,467
Other payables	30,787	27,665
	924,583	793,888

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

20. CONTRACT LIABILITIES

The contract liabilities represents the Group's obligation to transfer goods or services to customers for which the Group has received consideration from customers in advance.

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
Provision of installation services	177,966	193,023
Provision of tap water supply	40,294	32,282
Sales of equipment	-	1,074
	218,260	226,379

21. PROVISIONS

	30/06/2020 <i>RMB'000</i> (unaudited)	31/12/2019 <i>RMB'000</i> (audited)
At beginning of the period/year	297,438	230,933
Provisions recognised	25,468	56,111
Unwinding of the discount (<i>Note 6</i>)	6,826	10,924
Payments	(2,808)	(530)
At end of the period/year	326,924	297,438
Less: Amount classified as current liabilities	(64,676)	(3,657)
Non-current portion	262,248	293,781

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities to specified level of serviceability and/or to restore the plants to a specified condition during the service concession periods. These contractual obligations to maintain or restore the facilities, except for any upgrade elements, are recognised and measured in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The applicable discount rate as at 30 June 2020 is 4.9% (31 December 2019: (audited) 4.9%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

22. BONDS PAYABLE

On 26 April 2019, the Company issued the first tranche of the corporate bonds in the principal amount of RMB500,000,000 (with issue cost of RMB2,450,000), which are unsecured, will mature in April 2024 and have a coupon rate of 5.99% per annum. On 23 September 2019, the Company issued the second tranche of the corporate bonds in the principal amount of RMB200,000,000 (with issue cost of RMB980,000), which are unsecured, will mature in September 2024 and have a coupon rate of 5.00% per annum. The Company has a right to adjust the coupon rate of the corporate bonds upward or downward in April 2022 and September 2022 while the corporate bond holders have a right to require the Company to redeem their corporate bonds at the principal amount with accrued interest in whole or in part in April 2022 and September 2022, respectively. The corporate bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, and are listed on The Shanghai Stock Exchange with an aggregate fair value of approximately RMB715 million as at 30 June 2020.

The movement of the liability component of the bonds payable for the period is set out as below:

	First tranche <i>RMB'000</i>	Second tranche <i>RMB'000</i>	Total <i>RMB'000</i>
Principal amounts	500,000	200,000	700,000
Less: Issue costs	<u>(2,450)</u>	<u>(980)</u>	<u>(3,430)</u>
Net proceeds upon issuance	497,550	199,020	696,570
Interest accrued for in the year	20,252	2,543	22,795
Interest payable included in other payables	<u>(19,967)</u>	<u>(2,500)</u>	<u>(22,467)</u>
At 31 December 2019 (audited)	497,835	199,063	696,898
Interest accrued for in the period	15,197	5,088	20,285
Interest payable included in other payables	<u>(14,976)</u>	<u>(5,000)</u>	<u>(19,976)</u>
At 30 June 2020 (unaudited)	<u><u>498,056</u></u>	<u><u>199,151</u></u>	<u><u>697,207</u></u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

23. SHARE CAPITAL

	30/06/2020 RMB'000 (unaudited)	31/12/2019 <i>RMB'000</i> <i>(audited)</i>
At beginning and end of the period/year	859,710	859,710
Shares of RMB1 each		
– Domestic shares	644,770	644,770
– H shares	214,940	214,940
	859,710	859,710

Domestic shares and H shares rank pari passu in all respects with each other. Domestic shares are not eligible for trading on the Main Board of The Stock Exchange of Hong Kong Limited.

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

Equity investments are measured at fair value for financial reporting purposes. This note provides information about how the Group determines the fair values of these financial assets.

In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets.

The fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

	Ownership interest	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Unquoted equity investments at fair value			
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. (Note)	17.5%	55,525	53,883
Others		1,761	3,882
		<u>57,286</u>	<u>57,765</u>

Note: The fair values are determined based on adjusted net assets value of the investment that is categorised as level 3 of fair value hierarchy. An increase in the adjusted net asset value of such investment used in isolation would result in an increase in the fair value of the equity investment, and vice versa.

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity investments RMB'000 (unaudited)
At 1 January 2020	57,765
Net fair value loss recognised in other comprehensive expense	(479)
At 30 June 2020	<u>57,286</u>

Net fair value loss in other comprehensive expense relate to equity instruments at fair value through other comprehensive income ("FVTOCI") held at the end of the reporting period and are reported as changes of "FVTOCI reserve".

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

	As at 30 June 2020		As at 31 December 2019	
	Carrying amount RMB'000 (Unaudited)	Fair value RMB'000 (Unaudited)	Carrying amount RMB'000 (Audited)	Fair value RMB'000 (Audited)
Bonds payable (Level 1)	<u>697,207</u>	<u>714,650</u>	<u>696,898</u>	<u>700,000</u>

The fair value of bonds payable was based on quoted market price.

25. CAPITAL COMMITMENTS

	30/06/2020 RMB'000 (unaudited)	31/12/2019 RMB'000 (audited)
Capital expenditure contracted but not provided for constructing and upgrading infrastructure	<u>1,235,783</u>	<u>895,218</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

26. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government (“government-related entities”).

During the period, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, wastewater treatment operating service, construction and other services. These transactions are conducted in the ordinary course of the Group’s business on terms comparable to those with other entities that are not state-owned. Besides, the Group has established its pricing strategy and approval process for purchase and sales of goods, investments and service. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with Luzhou Laojiao Group Co., Ltd. (“Luzhou Laojiao”) (which is controlled by the PRC government) and the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

Other than the transactions and balances with related parties disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following transactions with the Company’s immediate holding company, fellow subsidiaries and other related parties during the period:

	Relationship	Six months ended	
		30/06/2020 RMB'000 (unaudited)	30/06/2019 RMB'000 (unaudited)
Tap water supply			
– Xinglu Investment	Immediate holding company	3	7
– Luzhou Laojiao Group Co., Ltd.	A shareholder	124	102
– Other companies	Fellow subsidiaries	2,163	1,503
Installation service income received			
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	Fellow subsidiary	2,071	3,440
– Other companies	Fellow subsidiaries	3,046	2,971
Water quality testing income			
– Luzhou Laojiao Group Co., Ltd.	A shareholder	3	11
Property management fees	A fellow subsidiary	(2,055)	(2,198)

The above transactions with related parties also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were conducted in accordance with the terms of relevant agreements.

In addition, during six months ended 30 June 2020 and 2019, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2020

26. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of directors, supervisors and key management personnel

The remuneration of directors, supervisors and other members of key management during the period are as follows:

	Six months ended	
	30/06/2020	30/06/2019
	RMB'000	RMB'000
Short-term benefits	<u>1,060</u>	<u>1,040</u>

27. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2020, a non-controlling equity owner of a subsidiary contributed to the registered capital of a subsidiary upon its establishment in the form of property, plant and equipment of RMB22,477,000, investment properties of RMB1,581,000 and right-of-use assets of RMB2,301,000.